

Message Text

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TO SECSTATE WASHDC 3955

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SUBJ :FINANCE MINISTER'S BUDGET SPEECH

1. SUMMARY. FINANCE MINISTER'S BUDGET SPEECH OUTLINES MAJOR OBJECTIVES:MAINTAIN GROWTH,PRESERVE ECONOMIC STABILITY AND REDUCE INFLATION RATE, STRENGTHEN BALANCE OF PAYMENTS AND ALLEVIATE INFLATION'S IMPACT ON LESS FORTUNATE SOUTH AFRICANS. HE DESCRIBED BUDGET AS GENERALLY CONSERVATIVE,PROMISED CONSERVATIVE MONETARY POLICY, ANNOUNCED INCREASE IN BANK RATE AND HIGHER FINANCE CHARGES, CONCESSION IN TAXATION, ASSISTANCE FOR BANKS WITH LIQUIDITY PROBLEMS,INCREASE IN PENSIONS,HIGHER SUBSIDIES FOR FOOD AND HOUSING. DEFENSE EXPENDITURE WILL BE INCREASED,ALONG WITH SPENDING ON HOMELANDS DEVELOPMENT, AND NEW INCENTIVES ARE AVAILABLE TO PROMOTE TRAINING OF SKILLED LABOR. DIEDERICH'S ALSO STRESSED CONTINUING IMPORTANCE OF GOLD AS MONETARY METAL AND URGED INCREASE IN OFFICIAL PRICE TO MORE REALISTIC LEVEL. IN FOLLOW THROUGH HE ANNOUNCED NEW TAX CONCESSIONS FOR GOLD MINING INDUSTRY. COMMITMENT TO GROWTH, WHILE HEDGED BY CONCERN OVER

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INFLATIONARY PRESSURES,REFLECTS CONFIDENCE IN STATE OF ECONOMY

AND GOVT'S ABILITY TO REGULATE IT. END SUMMARY.

2. IN BUDGET SPEECH TO ASSEMBLY AUGUST 14, FINANCE MINISTER DIEDERICH'S DECLARED SOUTH AFRICAN ECONOMY STANDS OUT FOR ITS STRENGTH AND VIRILE GROWTH IN WORLD PLAGUED WITH GRAVE ECONOMIC INSTABILITY BUT INDICATED UTILIZATION OF CAPACITY IS APPROACHING MAXIMUM AND THAT INCREASING DEMAND IN CAPITAL AND LABOR MARKETS MAY BECOME EXCESSIVE IN RELATION TO PRODUCTIVE RESOURCES. HE ANNOUNCED FOUR OBJECTIVES FOR CURRENT ECONOMIC POLICY:

A. MAINTENANCE OF SATISFACTORY RATE OF GROWTH, PARTICULARLY TO INCREASE PRODUCTIVE CAPACITY.

B. PRESERVATION OF ECONOMIC STABILITY AND REDUCTION, IN SO FAR AS POSSIBLE, OF INFLATION RATE.

C. LONG TERM STRENGTHENING OF CURRENT ACCOUNT IN BALANCE OF PAYMENTS WITH SOME SHORTER TERM ACTION TO IMPROVE CAPITAL ACCOUNT.

D. ALLEVIATION OF INFLATION EFFECTS, ESPECIALLY FOR 'LESS FORTUNATE MEMBERS OF COMMUNITY'.

3. IN SUMMING UP, DIEDERICH'S CONTINUED GIVE FIRST PRIORITY TO MAINTENANCE OF SATISFACTORY RATE OF GROWTH AS BEING OF HIGHEST ECONOMIC AND SOCIAL IMPORTANCE. HE SAID ON EXPENDITURE SIDE THERE IS INCREASED PROVISION FOR EDUCATION, TRAINING AND EXPANDING ECONOMIC INFRA-STRUCTURE. ON REVENUE SIDE THERE ARE CONCESSIONS IN MINING TAXATION, INCREASES IN INVESTMENT AND ALLOWANCES FOR MACHINERY, CONCESSIONS FOR LABOR TRAINING. REDUCTION IN COMPANY TAX AND IN INCOME TAX SURCHARGE FOR INDIVIDUALS. TO COMBAT INFLATION RESERVE BANK WILL RAISE CERTAIN INTEREST RATES AND GENERALLY ADOPT CONSERVATIVE MONETARY POLICY. TO ALLEVIATE EFFECTS OF INFLATION, BUDGET ALSO PROVIDES REDUCTION IN SALES TAX, INCREASE IN PERSONAL TAX ALLOWANCES, REDUCTION IN PROPERTY TRANSFER TAX FOR HOME OWNERS, SUBSTANTIAL INCREASE IN PENSION PAYMENTS, SUBSIDIES ON FOOD AND MORTGAGE INTEREST.

4. IN PASSING REFERENCE TO OTHER PRIORITIES IN SUMMARY, HE SINGLED OUT DEFENSE EXPENDITURE (WHICH WILL BE INCREASED BY R230 MILLION (DOL 338.1 MILLION)).

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5. ON MONETARY SIDE HE REPORTED INCREASE IN BANK RATE FROM 7 1/2 TO 8 PERCENT, AND INCREASES OF 1/2 PERCENT IN PATTERN OF INTEREST RATES ON GOVT ISSUES TO NARROW GAP BETWEEN LOCAL AND FOREIGN INTEREST RATES AND STRENGTHEN CAPITAL ACCOUNT IN BALANCE OF PAYMENTS.

6. REVIEWING EFFORTS TO ACHIEVE INTERNATIONAL MONETARY REFORM DR. DIEDERICH'S SAID HE FEARED 'WE CANNOT EXPECT RAPID SOLUTION'

DECLARED ECONOMIC DISTURBANCES ABROAD ARE LIKELY TO LEAD TO STILL GREATER DISTRUST OF PAPER MONEY AND TO FURTHER INCREASE IN DEMAND FOR GOLD ON PRIVATE MARKET, AND THAT ANTICIPATED CHANGE IN AMERICAN LEGISLATION ALLOWING U.S.CITIZEN USE GOLD, TOGETHER WITH GENERAL MONETARY UNCERTAINTY SHOULD GIVE IT FURTHER STRENGTH. HE CITED RECENT AGREEMENT OF TEN MOST IMPORTANT INDUSTRIAL COUNTRIES TO USE GOLD AS COLLATERAL SECURITY FOR LOANS BETWEEN MONETARY AUTHORITIES AT HIGHER VALUE THAN OFFICIAL PRICE AND URGED AS MORE STRAIGHT FORWARD AND EFFECTIVE SOLUTION A SIMPLE INCREASE IN OFFICIAL GOLD PRICE TO A MORE REALISTIC LEVEL. HE ADDED THAT WHATEVER SOLUTION IS ADOPTED, HE IS CONVINCED THAT MONETARY AUTHORITIES AND WORLD AT LARGE WILL CONTINUE TO PRIZE GOLD AS MONETARY METAL.

7. IN RELATION TO FOREGOING DIEDERICH'S ANNOUNCED TWO CONCESSIONS ON MINING TAXATION WHICH WILL BENEFIT GOLD MINES FOR WHICH NEW LEASES ARE GRANTED AND ENCOURAGE GOLD MINES WITH EXISTING LEASES TO FINANCE EXPANSION.

8. BUDGET ALSO PROVIDES INCREASE OF R85 MILLION(DOL125MILLION) IN EXPENDITURE MAINLY FOR HOMELANDS DEVELOPMENT WHICH 'REFLECTS DETERMINATION OF GOVT TO CREATE VIABLE HOMELANDS FOR BANTU WHERE THEY CAN EVOLVE TOWARDS INDEPENDENCE'.

9. TO ENCOURAGE TRAINING OF SKILLED WORKERS EXEMPTION FROM TAX GRANTS RECEIVED FROM INDUSTRIAL TRAINING FUND IS INCREASED FOR 50 TO 100 PERCENT. EXPENDITURE BY EMPLOYERS ON APPROVED TRAINING PROGRAMS FOR BLACK LABOR IN WHITE AREAS NOW QUALIFIES FOR 100 PERCENT DEDUCTION FROM INCOME AND WHERE SUCH TRAINING TAKES PLACE IN ECONOMIC DEVELOPMENT AREA THIS DEDUCTION BECOMES UNCLASSIFIED

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125 PERCENT. THESE CONCESSIONS ARE MADE WITH VIEW TO 'SIGNIFICANTLY RAISING THE PRODUCTIVITY OF BANTU WORKERS, IN THE INTEREST OF ALL SECTIONS OF THE COMMUNITY'.

10. COMMENT: CONTINUED COMMITMENT TO GROWTH OF INDUSTRIAL CAPACITY AND PRODUCTIVITY,TEMPERED BY CONCERN FOR BALANCE OF DEMAND AGAINST RESOURCES REFLECTS CONFIDENCE IN STATE OF ECONOMY AND IN GOVT'S ABILITY TO REGULATE IT WHILE MAKING APPROPRIATE ADJUSTMENTS TO EXTERNAL DEVELOPMENTS, I.E.HIGHER GOLD PRICES OFFSET BY HIGH COST OIL,INFLATION ABROAD AND NEW DEFENSE NEEDS.

1. TO MEET SECONDARY OBJECTIVES BUDGET MAKES NUMBER OF CONCESSIONS FOR WELFARE OF MIDDLE AND LOWER INCOME CLASSES

PREDOMINANTLY TO BENEFIT OF WHITEPOPULATION.
BLACKS,WILL SHARE IN BENEFITS
TO INDUSTRY OF LABOR TRAINING INCENTIVES BUT APART FROM MENTION
OF UPWARD ADJUSTMENTS IN PENSION PAYMENTS TO BLACKS.COLOREDS AND
INDIANS, NEW BUDGET SHOWS SCANT CONCERN FOR SPECIFIC IMPROVEMENT
IN LIVING CONDITIONS AND SOCIAL WELFARE OF NON-VOTING MEMBERS
OF SOUTH AFRICAN POPULATION.

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